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ASX & MEDIA RELEASE

DECEMBER 2007 QUARTERLY ACTIVITIES REPORT AND APPENDIX 5B

Highlights

- Successful commercial testing operations commenced at the Southeast Lost Hills gas project
- The South Buckeye well yields initial non-commercial gas test result with “fracking” operations now under review
- A new target location has been identified at the Ventura South Flank prospect and a redrill opportunity is anticipated in the second quarter of calendar 2008
- The Maricopa project well advanced for drilling which is expected in the first quarter 2008

DRILLING AND DEVELOPMENT PROGRAM

Southeast Lost Hills Project: 50% (San Joaquin Basin)

In early December 2007, Solimar Energy Pty Ltd (Solimar Energy; ASX Code: SGY) announced the successful commercial testing of operations which commenced at the Jack Hamar 3-13 well at the Southeast Lost Hills Project (SELH) in the San Joaquin Basin in California. Solimar Energy's wholly-owned US subsidiary, Livingstone Energy, Inc. (Livingstone) is Operator in a joint venture with Nuenco NL (ASX Code: NEO). Southeast Lost Hills is a shallow gas accumulation where four wells have already been drilled.

The Jack Hamar 3-13 well flowed gas at three sustained production rates over a 48 hour testing period. The longest test period was at 633,000 cfpd with a tubing pressure of 1,185 psi on a 6/64 inch choke. Livingstone is planning to recomplete and test the other three wells (Jack Hamar 1-12, 1-13 and 2-13) in this prospect area within the next few months. The gas from the commercial wells will be transported through the Joint Venture owned pipeline for sale in to the local energy market. The Joint Venture partners are in discussions with potential buyers of the natural gas.

The aim of testing the SELH operation is to confirm commercially viable production rates from these wells and to better ascertain the reserves potential. Solimar Energy believes there is potential for a substantial gas accumulation in the shallow Pliocene reservoirs. The commercial development potential of the project is enhanced by strong gas demand in the area, local infrastructure and high gas prices.

Solimar Energy has a 50% interest in the Southeast Lost Hills Project.

Ventura South Flank Prospect: 16.5% (Ventura Basin)

Solimar Energy together with its Joint Venture partners have concluded an evaluation of the data obtained in and around the Ventura South Flank oil and gas exploration prospect in the Ventura Basin, California. A new target location has been identified and a redrill opportunity is anticipated in the second quarter of calendar 2008.

The recent evaluation included analysing the data from the recent drilling done by Solimar Energy and its partners in mid 2007 as well as the more recent data obtained from re-entering the old Walter Sexton well (WS#1) drilled in 1935. The recent evaluation included generating a 3-D geologic model which demonstrated the two Ventura South Flank (SF#1) boreholes drilled in 2007 were apparently separated from the oil and gas reservoir described in the WS#1 well in the 1930's by a combination of the faulting seen in the SF#1 well and the fault system identified in the seismic interpretation.

The re-entry of the 1935 WS#1 well was challenging but it provided extremely valuable data in determining the anticipated bottom hole location of the original 1935 well which had strong oil and gas indications that has now helped to identify the new drilling target. It is interesting to note that while the recent work was being undertaken in the old WS#1 well bore, evidence of oil and gas was observed which provides further encouragement for the re-drill.

The current plan is to finalise the well path for a redrill from the SF#1 well along with costs to determine rig availability in preparation for a final project review by all partners and investors. Early indications suggest the redrill could be scheduled for the second quarter of calendar 2008.

The original prognosis of the Ventura South Flank prospect is that it has the potential to contain 10-20 million barrels of recoverable oil and several billion cubic feet of gas. It is being drilled as a follow up to the 1935 Walter Sexton well that encountered strong oil and gas shows but was never completed due to the technical complexities of drilling such a well in the 1930's. At the time the Walter Sexton well was drilled it was amongst the deepest wells drilled in the world at close to 10,000 feet on a complex structure. The well encountered over 800 feet of oil and gas shows in a high pressure gas environment that ultimately forced its abandonment after many years of drilling and testing due to the technical limitations at the time. The prospect is located one mile from the billion barrel oil Ventura Avenue oil field.

Forbes Gas Project: 50% (Sacramento Basin)

Production testing of the South Buckeye 1-18 well commenced in November 2007. The primary objectives in the Forbes interval were perforated. After swabbing, the well flowed high quality gas but not at commercial flow rates due most likely to a tight reservoir section in this location. The joint venture partners are now evaluating the possibility of fracture stimulating the perforated intervals across this tight section. The well has other shallower potential gas bearing sections which are also being evaluated for possible testing in the near future.

Aquaduct Fan Project: 10% (San Joaquin Basin)

During the quarter no exploration activity occurred at this project. Plans are being made to drill a well in calendar 2008, subject to rig availability.

Maricopa Project: 50% (San Joaquin Basin)

During the quarter, environmental approvals in relation to the protection of plants and animals were processed with the Californian Department of Fish and Game. A standard requirement for such projects where environmental approvals are obtained involve providing offset acreage for the drill sites. These arrangements are underway and as required approvals have to be obtained. The plan is to contract a drilling rig with expectations of drilling to occur in the first quarter of calendar 2008.

Separately, Solimar Energy obtained its operator license with the State of California and the Federal Bureau of Land Management (BLM) and is now in a position to be the operator of record for all its projects. Sunset Energy Limited (ASX Code: SEY) holds a 50% working interest in the project.

Deer Creek Project: 50% (San Joaquin Basin)

Leasing work is continuing at the Deer Creek project. At this stage, plans are to drill one well by the end of the second quarter of calendar 2008. Sunset Energy Limited (ASX Code: SEY) holds a 50% working interest in the project.

Other Work

Solimar Energy continues to review new potential projects in the Sacramento, San Joaquin and Ventura Basins to enhance the value of the company's exploration portfolio.

Note that all dates for drilling activities discussed in this quarterly report are subject to rig availability, and may change.

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Yours sincerely



Frank Petruzzelli
Chairman
Solimar Energy Limited

The geological information included in this announcement is based on information provided by Robert Rosenthal, a consulting geologist to the petroleum industry with over 25 years relevant industry experience. Mr Rosenthal has consented to the inclusion of the geological information in this announcement in the form and context in which it appears.

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Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

SOLIMAR ENERGY LTD

ABN

42 112 256 649

Quarter ended ("current quarter")

31 DECEMBER 2007

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration and evaluation	(73)	(602)
(b) development	-	-
(c) production	-	-
(d) administration	(280)	(712)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	47	105
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other – Farmin Payments	233	263
Net Operating Cash Flows	(73)	(946)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects	-	-
(b)equity investments	-	-
1.9 Proceeds from sale of: (a)prospects	-	-
(b)equity investments	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Cash acquired from Solimar Acquisition	-	-
Net investing cash flows	-	-
1.13 Total operating and investing cash flows (carried forward)	(73)	(946)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Costs of the issue	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	(655)
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
Net financing cash flows		-	(655)
Net increase (decrease) in cash held		(73)	(1,601)
1.20	Cash at beginning of quarter/year to date	3,275	4,819
1.21	Exchange rate adjustments to item 1.20	51	35
1.22	Cash at end of quarter	3,253	3,253

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	Nil
1.24	Aggregate amount of loans to the parties included in item 1.10	Nil

1.25 Explanation necessary for an understanding of the transactions

Over the quarter director fees were accrued but no payments were made.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

Financing facilities available

Add notes as necessary for an understanding of the position.

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	-	-
3.2	Credit standby arrangements	-	-

+ See chapter 19 for defined terms.

Estimated cash outflows for next quarter

		\$A'000
4.1	Exploration and evaluation	650
4.2	Development	-
Total		650

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	3,253	3,275
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
Total: cash at end of quarter (item 1.22)	3,253	3,275

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1		Interests in mining tenements relinquished, reduced or lapsed		
6.2		Interests in mining tenements acquired or increased		

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Performance +securities <i>Convert to ordinary securities on development of a commercial mining project</i>	n/a			
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs.				
7.3 +Ordinary securities	162,666,661	162,666,661⁽¹⁾		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 +Convertible debt securities <i>(description)</i>	n/a			
7.6 Changes during quarter (a) Increases (b) Decreases				
7.7 Options <i>(description and conversion factor)</i>	30,250,000 comprising: 17,500,000 1,250,000 <i>Incentive Options</i> 11,500,000 Options Convert on a 1:1 basis	-	Exercise price 30 cents 20 cents 25 cents	Expiry date 18 December 2009 18 December 2009 18 December 2009
7.8 Issued during quarter	1,500,000		25 cents	18 December 2009
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>	n/a			

+ See chapter 19 for defined terms.

7.12	Unsecured notes <i>(totals only)</i>	n/a	
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Notes: (1) 17,000,001 shares had been placed in escrow for 24 months from September 2005 and they were not able to be traded. They were released from escrow on 21 September 2007.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Chris Bowyer

Company Secretary

Date: 23 January 2008

Print name:

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.